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Insurance Accounting Newsletter

The start of the joint deliberations process is marked by the FASB decision to set a narrower course for the US insurance accounting project

Main developments

The beginning of 2014 was expected to start the final stage of the deliberation process of the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) to consider the comments received on their respective proposals published in June 2013[1] and to produce a new IFRS and a new US GAAP pronouncement (an Accounting Standard Update or ASU).

The IASB and FASB (together the Boards) met in January to consider their respective Staff summaries of the feedback received from users of financial statements and outreach activities. No decisions were required from the two Boards during the meeting. The discussions highlighted key areas of concerns raised by the respondents in the IASB's 2013 Exposure Draft (2013 ED) for consideration by the Board during their re-deliberations in 2014.

Following this joint meeting the FASB had a separate redeliberation meeting in February 2014. At this meeting it decided to take a new course for its insurance contracts project. The FASB's new direction is to substantially preserve the current US pronouncements affecting insurance entities and to identify and release an ASU which will introduce only certain targeted improvements.

The FASB's decision in February is the result of their assessment of the main themes in the comment letters they received and from the outreach activities they carried out in parallel and after the expiry of the comment period.

The IASB continued its redeliberation process at its meeting in March and we believe that joint discussions with the FASB will continue for those areas where FASB's targeted improvements to US GAAP would benefit from the elements that the IASB will include in their new IFRS.

1 The IASB proposal is available at http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Exposure-Draft-June-2013/Pages/Exposure-Draft-and-comment-letters.aspx and the FASB proposal is available at http://www.fasb.org/cs/ContentServer?site=FASB&c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1175801889812.

Main themes in the comment letters and outreach activities

The comment periods for both proposals closed on 25 October 2013. IASB received a total of 194 comment letters from various respondents in different geographical locations, including insurance companies, accounting and actuarial firms, regulators and other stakeholders. FASB received over 200 comment letters from a similar composition of respondents.

Both the IASB and the FASB had the benefit of knowing the results of fieldwork performed on various aspects of their proposed accounting models.

The fieldwork conducted by IASB was undertaken by 17 participants from jurisdictions other than the European Union (EU) and 13 participants from the EU as coordinated with EFRAG and the French, German, United Kingdom and Italian national standard-setters. The IASB also conducted 44 discussions with 159 users of financial statements from various jurisdictions worldwide between June and December 2013.

The FASB conducted field testing with 18 preparers which included life, composite, property and casualty, health, reinsurance and other insurers as well as noninsurance entities. The FASB also held discussions with numerous preparers and users of financial statements during its outreach process.

The joint January meeting was structured such that the IASB Staff presented their summary followed by the FASB Staff presentation. The discussion was structured mainly around the 5 targeted topics in the IASB 2013 ED and the cost and benefits of implementing the proposals and their likely effects.

The IASB Staff highlighted to the Boards the support expressed by the respondents to the IASB's 2013 ED which addressed many of the concerns respondents had with the 2010 ED. Many respondents also welcomed the IASB's proposal for an insurance contracts standard that reflects a current measurement of the liability adjusted for the time value of money and incorporates an explicit risk adjustment.

Of the five targeted topics, wide support was expressed for the proposals to unlock the contractual service margin (CSM) and the design of a retrospective approach to transition with practical expedients. Mixed views were received over the mirroring proposals and insurance revenue proposals, largely driven by differences in jurisdictions and type of respondents. Limited support was noted over the proposal to recognise the effect of changes in discount rates in other comprehensive income (OCI) although respondents were sympathetic towards the IASB's intention to eliminate accounting mismatches through this proposal.

In general, two key concerns emerged from the comment letters: (1) the operational complexity of specific proposals, in particular the requirement to decompose cash flows under the mirroring approach, and (2) the extent of accounting mismatches that will result from a mandatory requirement to account for the effect of changes in discount rates in OCI (termed the 'OCI solution').

Topic 1 – Unlocking the contractual service margin

In its 2013 ED, the IASB proposed to adjust the CSM liability prospectively for changes in estimates of cash flows relating to future coverage and/or service, with the limitation that the CSM should not become a negative value (i.e. a debit sign from a balance sheet perspective). Any unfavourable changes in the excess of the carrying amount of the CSM liabilty would be recognised immediately in profit or loss as an expense.

The IASB Staff noted that there is a wide support for this proposal from all types of respondents across various jurisdictions. Fieldwork participants also reported that the proposal is operational in practice. Respondents believe that this proposal will result in a better representation of the CSM as the unearned profit of the contract. Others commented that the proposal will result in a CSM measurement that is consistent at both the initial recognition and subsequent measurement points. Also, respondents noted that unlocking the CSM will result in a measurement under the building block model that is consistent with that under the premium allocation approach during the coverage period.

A minority of respondents did not support the CSM unlocking proposal as they preferred changes in estimates being immediately recognised. Some regulators have raised concerns that the proposal may result in the smoothing of underwriting results. Constituents from Asia, representing another minority view, commented that unlocking the CSM is complex as it will require the tracking of information that is not present if the CSM is not unlocked.

Proposed changes

The IASB Staff noted that there is a wide demand from respondents for the CSM to be unlocked for changes in the risk adjustment relating to future coverage and service. The IASB Staff commented that they initially considered during the development of the 2013 ED including changes in risk adjustments relating to future coverage and/or service as one of the factors that will unlock the CSM. The IASB Staff decided against the inclusion of such changes in the risk adjustment because of the operational complexity of identifying and separating the risk adjustment into the components that relate to (1) current and past coverage/service and (2) future coverage/service.

The fieldwork conducted by IASB was undertaken by 17 participants from jurisdictions other than the European Union (EU) and 13 participants from the EU.

However, most respondents commented that allowing changes in the risk adjustment to unlock CSM would be the conceptually correct approach and its benefit would outweigh the costs of separating its changes. Respondents expressed mixed views with regards to the feasibility of identifying and separating the risk adjustment into component parts (as discussed above), largely based on jurisdictional differences. Respondents from Europe, Australia and North America commented that it would be feasible to do so because existing methods for determining the risk adjustment already incorporate the information required to separate the risk adjustment into components relating to current and past coverage/service and future service. Respondents in other jurisdictions that use other methods or approximate methods are not convinced about the feasibility of separating the risk adjustment into the required components.

Another proposal that some respondents recommended is for losses that were previously recognised in profit or loss on onerous portfolios to be reversed before reinstating the CSM liability if new updated estimates of future cash flows indicate that those porfolios are no longer onerous. Concerns were raised by regulators over the possibility of an insurer recognising 'excess' losses in one period with a consequent effect of reducing the CSM to zero and then revising its estimates in the subsequent period in order to rebuild a new CSM figure. Some respondents commented that tracking the unfavourable changes in the cash flows that have been previously recognised in profit or loss will result in added complexity. However, many respondents believe that the benefit of retaining records of losses associated with in-force portfolios to allow their reversals when conditions change will outweigh the cost of creating the necessary systems for the storage of such data.

The IASB Staff also highlighted the request from respondents to clarify which cash flows will unlock the CSM, in particular those relating to participating contracts.

The Deloitte position[2] on the contractual service margin

We agree with adjusting the CSM for differences between the current and previous estimates of the present value of future cash flows related to future coverage and other future services (otherwise referred to as 'unlocking'). Overall we welcome the change in the recognition and measurement of the CSM from the 2010 ED because it now recognises the role of the CSM as unearned profit. Also, it will better reflect the economic substance of insurance contracts which we view as a payment received in advance for an obligation to stand ready to accept and handle a claim and to provide benefits to the policyholder or other parties associated with uncertain events adversely impacting the policyholder.

The unlocking of the CSM makes the accounting model in the 2013 ED more internally consistent because the CSM will now be recalculated at each reporting date in line with the revised estimates of the fulfilment cash flows.

Finally, we welcome the Board's agreement with the view expressed in our previous comment letter that on recalibration the CSM should not be negative. Accordingly, an entity must release to profit or loss any aggregate CSM in full for that onerous portfolio. Any subsequent favourable differences as a result of changes in assumptions would be recognised in CSM.

However, we believe that the unlocking of the CSM requires substantial improvements to allow for the faithful representation of the impact that insurance and participating contracts will have on insurers' performance. The key improvements are the removal of what we believe are inappropriate restrictions on the period over which the CSM is released to profit or loss and on the types of assumptions insurer should consider for unlocking.

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However, many respondents believe that the benefit of retaining records of losses associated with in-force portfolios to allow their reversals when conditions change will outweigh the cost of creating the necessary systems for the storage of such data.

2 The Deloitte position expressed here and throughout this summary represents views set forth within the Deloitte Touche Tohmatsu Limited (DTTL) comment letter in response to the IASB 2013 ED.

Topic 2 – Mirroring Approach

The mirroring approach only applies to a subset of insurance contracts and financial instruments with participating features that the Board's proposals define as participating contracts. These contracts present the possibility of an economic match between some of the contractual cash flows and the cash flows from the underlying items the insurer holds to fund those contractual cash flows. This will be the case where the contractual benefits vary directly with the value of the underlying items and where insurers are contractually required to hold such underlying items.

Concerns raised by respondents mainly focused on the operability and complexity of the proposal and the lack of clarity over the types of contracts to which the mirroring approach would apply.

The IASB Staff observed that of the five targeted topics, the mirroring proposal attracted the most criticisms from respondents. However, they also highlighted that respondents supported and understood the IASB's intention in including a mirroring exception to the accounting model which eliminates accounting mismatches for some participating contracts.

Most respondents do not support the mirroring proposal as they believe it to be overly complex to apply in practice, particularly the decomposition of cash flows into different sub-components each with a different accounting basis specified in the 2013 ED. Others believe that the process of separating the cash flows can be subjective, resulting in different accounting treatments for the same insurance contract. Others raised concerns over instances where the underlying items are measured at cost, which would result in the insurance contract liability not being measured at a current value as would be the case for other insurance contracts.

Respondents in Canada and Asia, however, expressed their support for the mirroring proposals as they believe that this will result in the faithful representation of the economics of the participating contracts. This is because the insurance liability will reflect the amount that insurers are required to pay the policyholders, which is equivalent to the value of the underlying items.

Proposed changes

The IASB received mixed views about how to address the operational complexity of the mirroring approach which are largely due to the respondents' jurisdiction and type of insurance products sold. One proposal recommended the use of the general building block model but with the accounting for the asset backing the insurance liability being modified in order to remove potential accounting mismatches in respect of participating contracts. Others believe that concerns related to potential accounting mismatches in accounting for participating contracts can be addressed by allowing for an optional use of OCI to account for the effect of changes in the discount rates rather than it being mandatory. The IASB Staff also highlighted that there are alternative approaches recommended by respondents but these will need further consideration.

The IASB Staff observed that of the five targeted topics, the mirroring proposal attracted the most criticisms from respondents.

Respondents also provided comments on accounting for participating contracts where the mirroring approach would not apply. The feedback mainly focused on the discount rates to be used in the accounting model. Concerns were expressed over the added complexity in requiring different discount rates to be applied to different cash flows and the lack of clarity over which cash flows should be discounted at the current market rate and those discounted at a locked-in rate.

An IASB member highlighted the need to consider the feedback received from the users of financial statements on the accounting treatment of options and guarantees embedded in insurance contracts, as most users agree that options and guarantees embedded in insurance contracts should be measured using a current value approach. This feedback highlighted that measuring options and guarantees at current value will represent a significant improvement over the way options and guarantees are accounted for under existing accounting practices.

The Deloitte position on mirroring approach

Although we are supportive of the objective of reducing accounting mismatches, we are not supportive of the proposed "mirroring approach" for participating contracts due to its complexity, cost and departure from the pricing and product design that insurers apply and that should be represented faithfully in their financial statements. We recommend that the measurement for participating contracts be based on a single fulfilment cash flow calculation without decomposition of the contract's cash flows and using the amended CSM calculation of the type noted below. In addition, to the extent that the durations of underlying items match the expected durations of participating contracts, the interest expense in profit or loss should use the rate derived from the yields of those underlying items (calculated as directed by the contractual terms and conditions or applicable law or regulations governing the participation of the "current or future policyholders" in the returns so generated).

We believe that the CSM for participating contracts should be determined in line with the approach adopted for the recognition of fulfilment cash flows for those contracts, which include payments expected to be made to both current and future participating policyholders. The CSM would be taken to profit or loss in line with the insurer's fulfilment of its obligation to provide these policyholders with participation in the returns from the associated underlying items.

Topic 3 – Insurance Revenue

The proposal to present insurance contract revenue in the financial statements received mixed views from respondents. This proposal requires insurers (a) to recognise insurance contract revenue in each period in proportion to the reduction in liability over the remaining coverage period reflecting the transfer of services, and (b) to separate the deposit component from the insurance contract revenue.

The views of respondents are largely influenced by type of products sold, i.e. life or non-life and by the type of respondents, e.g. preparers, regulators, or users. This proposal will result in a significant change from current practices for life insurers but not for non-life insurers.

Those supportive of this proposal commented that presenting a revenue figure as proposed by the IASB will result in increased comparability between insurers' financial statements and those of other industries, thereby increasing investors' confidence in the insurance industry. Some respondents, however, commented that achieving comparability with other industries is not a high priority as analysts will mainly compare insurance companies with other insurance companies, not with other industries. Users of financial statements raised concerns over the understandability and usefulness of the new revenue metric and highlighted the need for the IASB to educate them in order to make this new measure understandable.

Alternative approaches

Several alternative approaches were recommended by respondents. One proposal suggested reverting back to the summarised margin approach as proposed in 2010 ED, with the volume measures such as gross written premiums and new business premiums disclosed in the notes to the financial statements.
Some respondents had changed their view of the summarised margin approach expressed in their response to the 2010 ED and now favour this approach ahead of the new insurance revenue proposals contained in the 2013 ED. Supporters of this approach believe that a margin-based approach provides a direct link to the measurement model used for the balance sheet and information about the key drivers of insurance contracts' performance. Similar to the 2013 ED proposal, the summarised margin also eliminates the concept of cash receipts and cash payments from the income statement and is easier to apply than the current proposal as it is fed directly from the balance sheet calculations without decomposition or grossing up of its elements.

A premiums due approach was also recommended, which is seen as more consistent with how management currently measures performance in insurance companies in several jurisdictions. Supporters of this approach are largely from jurisdictions applying US GAAP due to its similarity with their existing practices.

A minority of respondents recommended the gross written premiums approach as they believe that this will provide better and simpler comparability and information about performance.

Supporters of this approach believe that a margin-based approach provides a direct link to the measurement model used for the balance sheet and information about the key drivers of insurance contracts' performance.

Disaggregation of deposit components

A major concern which underpinned the opposition to the insurance contract revenue proposal is the exclusion of the cash flows associated with deposit components from insurance contract revenue amounts. Some respondents commented that the deposit component is an integral part of the insurance contract and it would not be meaningful to separate it from the underlying insurance contract. Others believe that it is operationally complex to separate the cash flows relating to the deposit component and that the information required to separate the cash flows may not be available in the existing accounting systems.

Contrary views were received from users of financial statements who agreed that deposit components should not be included as part of insurance contract revenue.

The Deloitte position on insurance revenue presentation

We continue to support the measurement of an insurance contract using the fulfilment cash flows. We also continue to welcome and support the link to the measurement model and the identification of the sources of profit under the summarised margin as amended for those contracts where the simplified approach for measuring the liability for the remaining coverage is available.

However, we believe that the new revenue metric proposed by 2013 ED would not be the most faithful representation of the contribution that insurance contracts with long duration coverage provide to an insurer's financial performance in the period. The IASB desire to develop a common presentation requirement for all types of insurance contracts should be measured against the different characteristics of the various insurance contracts. We believe that the IASB should accept the co-existence of two different presentation requirements when these offer the most decision useful presentation of the contribution of short and long duration coverage insurance contracts to an insurer's performance in a given period.

Coupled with this fundamental concern we are also of the view that the new insurance revenue is not the volume information requested by investors.

Topic 4 – OCI solution

Another area that received wide criticism from respondents is the IASB's proposal to present the impact of changes in the insurance liability arising from changes in the discount rate as a result of applying current market interest rates in other comprehensive income.

Many respondents expressed their support for the proposal for an amortised cost view of insurance contracts in profit or loss and a current view in the balance sheet and welcomed the IASB's proposal to recognise the impact of changes in the discount rate in OCI. However, there is limited support for this proposal being made mandatory due to the significant accounting mismatches that will occur where assets backing the insurance liabilities are measured on a basis other than FVOCI.

Those respondents who did not support the use of OCI to recognise the effect of changes in the discount rates are mainly from jurisdictions where existing practices requires the insurance contract liability to be valued at current value with assets backing those liabilities accounted for at FVTPL. For these jurisdictions the OCI solution will result in significant accounting mismatches if the FVTPL accounting for their asset is retained. Other jurisdictions, where assets backing the insurance contract liabilities are mainly accounted for as available-for-sale financial assets, welcomed this proposal. It was noted, however, that although these respondents support presenting the effect of changes in discount rate in profit or loss or in OCI, concerns were raised over the complexity and residual material accounting mismatches that will result on applying the OCI solution.

Most non-life insurers were less supportive than life insurers of the OCI solution due to their view that costs outweigh the benefits. Most non-life insurers would prefer presenting the impact of discount rate changes in profit or loss. The exception to this view is the Canadian non-life insurers who are supportive of the OCI solution as this will result in removing an accounting mismatch that currently exists as a result of their accounting practices on the assets.

One IASB member suggested that consideration should be given to the mismatches that may occur even if both the impact of changes in discount rates and assets backing the insurance contract liabilities are presented in OCI. It was also noted that the more active the insurer's asset-liability management is, the more accounting mismatches will result because the recycling principle present in asset and insurance contract accounting proposals will operate more frequently on the asset side due to asset derecognition being more frequent than those of insurance contracts. The 2013 ED would require the recycling of the OCI component of an insurance contracts when it is derecognised i.e. the contract expires, is settled or otherwise extinguished.

Contrary views were received from users of financial statements who agreed that deposit components should not be included as part of insurance contract revenue.

Proposed changes

Although various alternatives were presented by respondents and are mainly driven by differences in jurisdictional perspectives with a view of eliminating accounting mismatches they all demanded the same change to the OCI solution proposals: removal of its mandatory nature in the new IFRS. The different approaches to achieve this common ultimate objective were:

- Default presentation in OCI, with an option to present in profit or loss.
- Default presentation in profit or loss, with an option to present in OCI.
- No default position. There should be an accounting policy choice between whether to present the impact of changes in the discount rate in OCI or profit or loss.

Looking at how the OCI election should be made, most respondents suggested that it should be applied at a portfolio level while some suggested it should be applied at the entity level. Most respondents suggested that the election would be made irrevocably upon inception.

Another suggestion to eliminate accounting mismatches was to expand the use of OCI to permit all assets backing the insurance contract liability to be accounted for at FVOCI. This would include debt instruments that do not meet the contractual cash flow characteristics test under IFRS 9 and derivatives that are required to be accounted for at FVTPL under IFRS 9.

The Deloitte position on the OCI solution

We support the exploration of a methodology whereby all or portions of changes between the current discount rate and the discount rate determined at initial recognition of an insurance contract would be presented in other comprehensive income. We are of the view that considering the final IFRS on insurance contracts in conjunction with IFRS 9 (as amended) is the only pathway to achieve a faithful presentation of the insurance business model. However, we do not believe the proposal to require the presentation of part of the interest expense from insurance contracts through other comprehensive income (“the OCI solution”) as set out in the 2013 ED fully captures the nuances of asset-liability management for many insurers. The results that would be presented in conjunction with IFRS 9 (as amended) will leave a substantial number of accounting mismatches not dealt with which would hinder the relevance of financial information prepared by insurers.

We support the “OCI solution” for all insurance contracts but believe an entity should be able to make an irrevocable election at initial recognition of insurance contracts to recognise the change in carrying value associated with changes in discount rates to profit or loss. This is consistent with our preferred approach for the fair value option of financial instruments under IFRS 9.

Topic 5 – Transition

Respondents widely supported the approach to transition which required insurers to apply the requirements of the 2013 ED retrospectively. In those cases where it is impracticable to do so, the 2013 ED provided some simplifications to preserve the principle of full restatement of prior years in spite of insurers facing degrees of impracticability.

Respondents noted that additional costs will be incurred to apply the revised transition provisions as compared to the 2010 transition proposals but commented that the benefits will outweigh the costs. The IASB Staff also highlighted that comments had been received that the simplifications provided by the IASB Board are practical, reasonable and pragmatic.

Concerns were raised on whether information is available to enable the cash flows to be determined in periods before the beginning of the earliest period presented and to the level of detail required by the 2013 ED to determine the CSM. These concerns were raised despite the simplifications provided in the 2013 ED and respondent suggested that further simplifications are required.

Comments were also received on the inherent subjectivity in determining the CSM and on the amount of accumulated OCI resulting in differences between contracts in force at the date of transition and contracts written immediately after the transition regardless of any simplifications provided.

Proposed simplifications

Several proposals for further simplifications were suggested by respondents. For example, certain respondents proposed that insurers should determine the CSM on transition as the difference between the fulfilment cash flows and the previous GAAP or statutory reserves. There were suggestions to extend the application of the proposed simplifications to all contracts in force at the date of transition and not only for those where retrospective application is deemed impracticable. It was also suggested that the IASB should consider allowing the existing definition of a portfolio immediately before the date of transition to be used, which is similar to the approach proposed by the FASB in its proposal.

Alignment with IFRS 9 effective date

The IASB Staff noted the significant concern relating to differences in the effective dates of the insurance contracts standard and IFRS 9. There is a strong preference from respondents for an alignment of effective dates between the two standards, in order to avoid the need for insurers to undergo two significant accounting changes. However, respondents acknowledged that the effective date of IFRS 9 should not be delayed due to the insurance contracts standard. Varying proposals were suggested if this alignment is not possible and where the effective date of IFRS 9 comes before the effective date of the insurance contracts standard. These are:

- Provide an option to defer application of IFRS 9 by insurers.
- Allow insurers to redesignate financial assets and to reassess the business model for financial assets.
- Delay the effective date of the insurance contracts standard for at least three years after the effective date of IFRS 9.

During its meeting on 20 February 2014, the IASB decided that the effective date for IFRS 9 would be for accounting periods beginning on or after 1 January 2018. We believe that this new decision will offer to the IASB a tangible opportunity to complete the Insurance Project in time for it to be effective at the same time as IFRS 9.

Implementation Period

Most respondents agree that a three-year implementation period is sufficient.

The Deloitte position on approach to transition

We agree that, conceptually, a full retrospective approach is the most appropriate and accurate method of adopting the 2013 ED. In particular, we agree with the decision made by the IASB Board that if retrospective application is impracticable an insurer need not undertake exhaustive efforts to obtain objective information but should take into account all objective information that is reasonably available to determine the approximate amounts for the restated opening balance sheet. This approach should facilitate the determination of a sufficiently large number of prior periods that would be restated on the first time adoption of the new IFRS. For all contracts issued prior to that period the new IFRS should not require the computation of a CSM and the insurance contracts would be recognised based on the fulfilment cash flows only (inclusive of a current measure of the associated risk adjustment liability).

Effects of the Standard as a whole

In addition to the five targeted topics, the IASB also requested comments on the cost and benefits of implementing the proposals and their likely effects.

There is wide support from respondents over the proposal for a single accounting model that would be applied to all types of insurance contracts. However, there are concerns over the impact of changing from existing accounting practices. Most respondents commented that significant costs will be incurred not only during implementation but also on an ongoing basis after the insurance contract standard has been implemented. The costs will vary between insurers and between jurisdictions depending on the extent of changes required from their existing accounting practices. However, many respondents are of the view that provided the IASB is able to address the key concerns raised on the 2013 ED, in particular, accounting for participating contracts and accounting mismatches, they believe that the benefits will outweigh the costs that will be incurred.

Deloitte member firms commissioned a survey of insurance decision-makers with knowledge of the approach their organisation will take on the adoption of the new IFRS and asked for their opinions on the arrival of a new IFRS for insurance contracts. This survey was conducted on Deloitte member firms' behalf by the Economist Intelligence Unit ("the EIU") during August and September 2013 and it built on the equivalent survey they conducted for us during 2012.

The geographic coverage of this study has been increased to include major North American, Western European and Asian insurance markets. Nearly 300 respondents participated. The survey was designed to capture both life and non-life insurers (with a target of 50% per sub-group) and aimed to include a sufficiently representative range of sizes measured by their written premium net of reinsurance.

We asked the EIU to investigate which aspects of the new IFRS would present a particularly material challenge to respondents' organisations. Among other challenges, three of the five areas covered in questions 1 to 5 of the 2013 ED are included as a concern by responding insurers.

Through the survey, respondents highlight the impact and benefits the new IFRS for insurance contracts will have on their organisation; give an indication of the scale of their entities' global budget (including internal cost) they are expecting to allocate to prepare for the adoption of the new IFRS; and confirm their expectation of their timeline for adoption.

The full report is available at http://www.iasplus.com/en/publications/global/surveys/insurance-2013

FASB Project Update

At its meeting on 19 February 2014, in response to feedback received from its constituents, the FASB tentatively decided to:

- Generally limit the scope of insurance accounting to insurance entities.
- Retain the existing recognition and measurement model for short-duration contracts under US GAAP and make targeted improvements to enhance the disclosures for such contracts.
- Make targeted improvements to the recognition, measurement, and disclosure model for long-duration contracts.

These tentative decisions represent a significant change in the direction of the FASB's insurance contracts project and would result in a US insurance accounting model that significantly diverges from the insurance accounting model proposed by the IASB.

Like the IASB's 2013 ED, under the FASB's proposed ASU, any entity that issued an insurance contract, as defined in the proposal, or that purchased a reinsurance contract would have applied the proposed insurance accounting model. On the basis of feedback received from comment letters and the FASB's outreach efforts, a majority of the FASB agreed that instead of establishing a contracts-based model that would require the FASB to create numerous scope exceptions, it could reduce the proposal's complexity by retaining the "activity-based" scope of existing US GAAP (i.e. limiting the scope of insurance accounting to insurance entities). Several FASB members also indicated that FASB could later revisit whether certain contracts written by non-insurers should be subject to the insurance accounting model.

In addition, the FASB tentatively decided to focus its future efforts on making targeted improvements to the existing US GAAP insurance accounting model. Factors the FASB considered included constituent feedback, implementation costs, and the likelihood that the FASB and IASB would be unable to agree on a converged accounting model. For short-duration contracts, the FASB tentatively decided that its targeted improvements should focus only on enhancing the disclosures about such contracts. For long-duration insurance contracts, the FASB's targeted improvements may take into account all aspects of the long duration accounting model, including recognition, measurement, and disclosure. The FASB also will consider decisions reached by the IASB about the accounting for such contracts when contemplating its targeted improvements. Several FASB members acknowledged that its targeted improvement efforts could possibly result in a long-duration accounting model similar to the IASB's proposed building block approach; however such an outcome is not the primary objective of such improvements.

The FASB also will consider decisions reached by the IASB abo ut the accounting for such contracts when contemplating its targeted improvements.

The FASB directed its staff to conduct additional research on potential targeted improvements and to analyse the existing long-duration accounting models under US GAAP to identify differences between the models and practice issues raised by financial statement preparers and users.

Contacts

Global insurance network

Neal Baumann
Global Insurance Leader
U.S.
+1 212 618 4105
nealbaumann@deloitte.com

Francesco Nagari
Global IFRS Insurance Leader
U.K.
+44 20 7303 8375
fnagari@deloitte.co.uk

Asia Pacific

Stuart Alexander
Australia
+61 2 9322 7155
stalexander@deloitte.com.au

Eric Lu
China
+86 10 8512 5809
erilu@deloitte.com.cn

Simon Walpole
Hong Kong
+852 2238 7229
siwalpole@deloitte.com.hk

Kumiko Aso
Japan
+81 90 3910 2898
kumiko.aso@tohmatsu.co.jp

Arata Otake
Japan
+81 90 6035 8857
arata.otake@tohmatsu.co.jp

EMEA

Thomas Ringsted
Denmark
+45 27 14 20 44
tringsted@deloitte.dk

Jerome Lemierre
France
+33 1 55 61 40 78
jlemierre@deloitte.fr

Colin Schenke
Germany
+49 2118 7722404
cschenke@deloitte.de

Peter Tripe
South Africa
+27 21 427 5364
ptripe@deloitte.co.za

Jordi Montalbo
Spain
+34 93 280 40 40
jmontalbo@deloitte.es

Latin America

Lionel Moure
Argentina
+54 11 4320 2700
lmoure@deloitte.com

Javier Vazquez
Mexico
+52 555 080 6091
javazquez@deloittemx.com

North America

John Johnston
Bermuda
+441 292 1301
john.johnston@deloitte.bm

Neil Harrison
Canada
+1 416 601 6307
nharrison@deloitte.ca

Derek Wright
Canada
+1 416 874 3753
dewright@deloitte.ca

Rajiv Basu
U.S.
+1 212 436 4808
rbasu@deloitte.com

Robert Miccolis
U.S.
+1 215 246 2566
rmiccolis@deloitte.com

Gary Shaw
U.S.
+1 973 602 6659
gashaw@deloitte.com

Rick Sojkowski
U.S.
+1 860 725 3094
rsojkowski@deloitte.com

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